



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF MUNICIPAL AUDIT**

John G. Morgan
Comptroller of the Treasury

**SUITE 1600
JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-0271
PHONE (615) 401-7871
FAX (615) 741-1551**

Dennis F. Dycus, CPA, CFE, Director
Division of Municipal Audit

August 10, 2004

Honorable Mayor and Members of the
Board of Aldermen
City of Lexington
P. O. Box 87
Lexington, TN 38351

Gentlemen:

As requested by the Honorable Jerry Woodall, District Attorney General, we have completed our investigative audit of selected records of Lexington Water Systems. This investigative audit focused on the period July 1, 2002, through September 30, 2003. However, when warranted, the scope was expanded. The audit was limited primarily to a review of collections and disbursements involving a former employee.

Our investigative audit revealed an apparent misappropriation of \$6,423.37. According to water system personnel, Alicia Doyle, a 24-year city employee whose duties included both collecting water payments and making water disbursements, retired from Lexington Water Systems on September 25, 2003. After her departure, the water system's office manager discovered that Ms. Doyle had failed to turn over for deposit certain customer payments which she had collected. The office manager stated that although numerous checks payable to the water system (some collected three weeks prior to her retirement) were found in Ms. Doyle's bank bag, much of the cash related to these collections had apparently been taken from the water system office without authorization. The office manager determined, and our investigative audit verified, that at least \$6,423.37 was unaccounted for.

The director of utilities stated that when he contacted Ms. Doyle, she admitted to him that she did not turn over some of her collections to the office manager for deposit and that Ms. Doyle offered to repay the missing money when her pension check arrived. Ms. Doyle later signed over and mailed to the water system pension and personal checks totaling \$6,424.14.

Honorable Mayor and Members of the
Board of Aldermen
City of Lexington
August 10, 2004
Page 2

As noted in Item 1 below, our examination of the records revealed that Ms. Doyle did not remit collections for deposit promptly and intact. Documentation of Ms. Doyle's collection and deposit activity indicated a pattern consistent with a lapping scheme in which the subject misappropriates collections from one deposit and uses subsequent collections to replace the misappropriated amounts. Failure by water system personnel to ensure prompt and intact deposits allowed the apparent misappropriation to occur without timely detection.

In June 2004, the Henderson County Grand Jury indicted Ms. Doyle on one count of Theft over \$1,000.

Our investigative audit also revealed the following:

1. Responsible water system personnel did not ensure that collections received by Ms. Doyle were deposited timely and intact into a City of Lexington bank account. Between July 1, 2002, and September 26, 2003, collection records indicated that in at least 115 instances, collections by Ms. Doyle were not deposited within three business days, as required by state statute. In 14 instances, collections were not deposited until over a week after being received by Ms. Doyle. As noted previously, when Ms. Doyle retired, water system personnel discovered collections she had apparently held for at least three weeks. Water system collection records indicated the more serious infractions (6 or more days) began occurring in December 2002.

We also noted several instances in which collections received by Ms. Doyle were apparently not deposited intact. Water system records indicated that for some deposits, although the total deposit amount agreed, the respective amounts of cash and checks deposited did not agree with the amount of cash and checks shown as being collected by Ms. Doyle.

Section 6-56-111(a), *Tennessee Code Annotated*, states:

Every municipal official handling public funds shall be required to, as soon as practical, but no later than three (3) working days after the receipt by such municipal official of any public funds, deposit the funds to the credit of such municipality's official bank account, or bank accounts.

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 1, Section 5, states:

Collections should be deposited promptly and intact and only in designated depositories. The bank's night depository should be used, if necessary, to avoid large accumulations of currency overnight. . . . The municipality should make daily deposits when large amounts of money are involved.

To help prevent the misuse or loss of collections, management should ensure that all collections are deposited into an official municipal bank account intact within three working days. Cash on hand should be safeguarded.

2. Our review of disbursements revealed that the water system loaned money to some employees in the form of payroll advances made by prenumbered check. In fact, water system records revealed that Ms. Doyle received an \$800 loan in January 2003, shortly after the serious deposit infractions noted in Item 1 began. The water system received repayment of these loans by withholding an agreed-upon amount of the employee's pay from subsequent payroll checks.

Article II, Section 29 of the *Constitution of the State of Tennessee*, provides:

But the credit of no County, City or Town shall be given or loaned to or in aid of any person, company, association or corporation, except upon an election to be first held by the qualified voters of such county, city or town, and the assent of three-fourths of the votes cast at a said election.

To avoid an unconstitutional giving or lending of the city's credit, city officials should ensure that municipal funds are not used to make personal loans without the assent of three-fourths of the votes cast at an election of qualified voters in the city.

3. Our investigative audit revealed that for some applicable projects, water system personnel did not complete work orders setting forth the date and nature of the job, inventory and equipment used, and labor costs incurred. As a result, water system records were insufficient to allow a reconciliation between the amount of

Honorable Mayor and Members of the
Board of Aldermen
City of Lexington
August 10, 2004
Page 4

water pipe purchased by the system between July 1, 2002, through June 20, 2003, and the amount of pipe used or remaining in inventory.

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 2, Section 5, states that municipal officials should ensure . . .

The use of prenumbered work order forms to document all nonadministrative jobs performed by municipal employees. The work order information should include the date, nature and location of the job, specifications of the work to be performed, and a job number which can be used to accumulate the related labor, materials and equipment costs.

In order to properly account for all charges to a project and to properly allocate costs to the correct fiscal year, detailed work orders should be completed and maintained in the water system's files.

If you have any questions concerning the above matter, please contact me.

Sincerely,

Dennis F. Dycus, CPA, CFE, Director
Division of Municipal Audit

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